TAB B

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Application of BellSouth Corporation, Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services In Alabama, Kentucky, Mississippi, North Carolina and South Carolina	)	**WC Docket No. 02-150**

REPLY DECLARATION OF MICHAEL LIEBERMAN
ON BEHALF OF AT&T CORP.

I. BACKGROUND AND SUMMARY

1. My name is Michael R. Lieberman. I am the same Mike Lieberman that filed a direct declaration in this proceeding on July 11, 2002. My qualifications are included in the above referenced declaration.

II. PURPOSE AND SUMMARY OF TESTIMONY

2. The purpose of my testimony is to update two items, daily usage feed ("DUF") rates changed by BellSouth and feature revenues available to competitive carriers, used to develop the margin analyses included in my July 11, 20 02 direct declaration. I update the DUF rates to reflect BellSouth's recent SGAT reductions -- in the event the Commission finds that BellSouth's modifications should be considered at all. I update the feature revenues to reflect

more recent information available from TNS Telecoms Bill Harvest market research product. Both of the above changes increase the margins available to CLECs (*i.e.*, either lower costs or increase revenues). However, as I demonstrate below, BellSouth's North Carolina UNE rates are so far above TELRIC that profitable entry is still not feasible, even with these changes.

III. IMPACT OF THE REVISED DUF RATES ON THE MARGIN ANALYSIS FOR NORTH CAROLINA

3. In my direct declaration, I adopted BellSouth's estimated DUF charges of $1.78 per-line to limit the areas of dispute in my analyses. On July 22, 2002, BellSouth submitted new DUF rates in North Carolina. To date, I have been unable to replicate BellSouth's average per-line rate (because BellSouth did not file any documentation illustrating the assumptions or calculations) in order to estimate what BellSouth's revised DUF rates would yield. I have therefore relied on my own calculations,[1] based upon the revised BellSouth SGAT, to estimate the per-line DUF charge for the purpose of my updated gross margin analyses (unless I note otherwise, all further references to margin relate to gross margins).[2] A comparison of the amalgam statewide margins (and the margins in each zone) using the original and updated DUF rates are shown in Table 1 (below)[3]:

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[1] My per-line DUF charges differ from those presented in the declaration of Mr. Turner because my calculations reflect only residential customers while Mr. Turner's calculations reflect all customers.

[2] I have attempted to align my assumptions with those relied on by BellSouth in its application. Specifically, I use assumptions that would have resulted in a per-line charge (using BellSouth's original DUF rates) of $1.82. This is very close to the per-line DUF charge of $1.78 that BellSouth included in its application. Updating this calculation to reflect BellSouth's revised SGAT, using the same assumptions, results in a per-line DUF charge of $1.18.

[3] In the amalgam margin analysis, the TSR-derived margins are higher than the UNE-P margins for zones 2 and 3 and thus the reduced DUF does not influence the amalgam margin for those zones when the DUF change is assess in isolation. For analogous reasons, only a portion of the DUF improvement is reflected in the amalgam margin.

Table I

Amalgam Margins for BellSouth North Carolina -- Using Updated DUF Rates

UNE Area	Original Margins	Updated Margins	Difference
Zone 1	$ 3.81	$ 4.29	$ 0.48
Zone 2	$ 3.65	$ 3.65	$ 0.00
Zone 3	$ 3.57	$ 3.57	$ 0.00
Statewide Avg.	$ 3.76	$ 4.10	$ 0.34

4. Thus, updating my margin analyses for North Carolina to incorporate BellSouth's last-minute revision of its DUF rates does not change the basic conclusion in my direct testimony -- the available margins do not permit residential competition.

IV. IMPACT OF THE UPDATED FEATURES REVENUES ON THE MARGIN ANALYSIS FOR NORTH CAROLINA

5. In my direct declaration, I used features revenue of $5.44 based on TNS Telecoms data through the fourth quarter 2001. However, more recent data from TNS Telecoms (through the first quarter of 2002) is available, showing that the average North Carolina features revenue is $6.24. I am therefore updating my analysis to include the best data available for creating a profile of the average North Carolina customer, and I am using this data to be consistent with an average North Carolina customer bill.

6. By contrast, BellSouth opted to use its "Complete Choice" offering, with an average local service revenue of $35 per line per month which, as I understand it, is intended to represent an average UNE-P residential customer in North Carolina. While this may reflect the average revenue (and perhaps a profit) for a high-end customer, only a tiny percent of total

residential customers fall into this category. BellSouth's argument inherently assumes a CLEC's average customer is equivalent to a Lake Wobegone customer -- everyone is significantly above average. Even if high-use customers were to be the sole target of CLECs, the profit that one calculates would be illusory. One need only look at the long distance market, where promotions and rate reductions (leading also to high customer churn) dramatically reduced the margins available from high-usage long distance customers. Moreover, the higher churn requires that customer acquisition costs (promotional and otherwise) as well as the non-recurring charges that a CLEC would have to pay to the ILEC with each round of churn, will be recovered over a much shorter period of time. This creates an extremely difficult situation for CLECs, because lower net revenues (resulting from promotions) and higher effective costs (because of churn) squeeze away significant margin. More importantly, however, there are just not enough of these customers for residential competition to develop in North Carolina. Clearly, it is more appropriate to reflect the average residential customer in a margin analysis (an assumption that also holds in the long run) than to substantially overstate the revenues that a potential entrant can expect to achieve when entering the residential market.

7. I have updated my margin analyses to use the updated features revenue from TNS Telecoms, which I believe to be the most accurate features revenue information available to estimate the revenues a CLEC can expect to achieve. Again, this change, while increasing the gross margin, does not alter the fact that profitable entry in North Carolina is still not possible. A comparison of the amalgam statewide margins (and the margins in each zone) using the original and updated features revenues are shown in Table II (below):

Table II

Amalgam Margins for BellSouth North Carolina -- Using Updated Features Revenues

UNE Area	Original Margins	Updated Margins	Difference
Zone 1	$ 3.81	$ 4.49	$ 0.68
Zone 2	$ 3.65	$ 3.82	$ 0.17
Zone 3	$ 3.57	$ 3.74	$ 0.17
Statewide Avg.	$ 3.76	$ 4.30	$ 0.54

8. Thus, updating my margin analyses for North Carolina to incorporate the more current features revenues also does not change the basic conclusion in my direct testimony -- the available margins do not permit residential competition.

V. COMBINED IMPACT OF THE REVISED DUF RATES AND UPDATED FEATURES REVENUES ON THE MARGIN ANALYSIS FOR NORTH CAROLINA

9. As shown above, updating the DUF rates and the features revenues does not, individually, change the conclusions in my direct testimony. It is telling that the margins available to potential entrants in North Carolina still do not allow for profitable entry, even when both changes are incorporated together. I have restated the margin analyses to include both the revised DUF rates and the updated features revenue as shown in Table III (below).

Table III

Estimated Connectivity Margin for BellSouth – North Carolina

Costs	Zone 1	Zone 2	Zone 3	Statewide Avg	
UNE-P (loop/port combo)	$ 13.03	$ 21.33	$ 32.61	$ 16.37	Note 1 Note 2
Usage (including features)	$ 5.90	$ 5.90	$ 5.90	$ 5.90	Note 1
DUF	$ 1.18	$ 1.18	$ 1.18	$ 1.18	Note 6
Platform-Recurring Cost	**$ 20.11**	**$ 28.41**	**$ 39.69**	**$ 23.45**	
Amortization of NRC Fee	$ 0.23	$ 0.23	$ 0.23	$ 0.23	Note 2

Platform-Recurring Cost	**$ 20.34**	**$ 28.64**	**$ 39.92**	**$ 23.68**	
Estimated Revenues					
BST's Basic Local Service	$ 12.29	$ 11.53	$ 11.15	$ 12.04	Note 2
Features	$ 6.24	$ 6.24	$ 6.24	$ 6.24	Note 7
Subscriber Line Charge	$ 6.00	$ 6.00	$ 6.00	$ 6.00	Note 3
Access	$ 0.90	$ 0.90	$ 0.90	$ 0.90	Note 1
Total	**$ 25.43**	**$ 24.67**	**$ 24.29**	**$ 25.18**	
Margin-Residence					
UNE-Platform Margin	$ 5.09	- $ 3.97	- $ 15.63	$ 1.50	
TRS Margin (at 21.5% discount)	$ 3.98	$ 3.82	$ 3.74	$ 3.93	Note 4
Amalgam Margin	**$ 5.09**	**$ 3.82**	**$ 3.74**	**$ 4.73**	Note 4
% (Amalgam Margin divided by Total Revenue)	**21%**	**15%**	**15%**	**19%**	
% of BellSouth access lines	**72%**	**19%**	**9%**	**100%**	Note 5

Note 1 – From BellSouth's Joint Affidavit of John A. Ruscilli and Cynthia K. Cox, Table 4.
Note 2 - New and/or adjusted figures as described in text of my direct declaration.
Note 3 - The current subscriber line charge is now $6.00.
Note 4 - I have included the optimal mix of UNE-Platform entry and resale entry for the purpose of this analysis.
Note 5 - Table 4 of John A. Ruscilli's and Cynthia Cox's affidavit miscalculated the statewide average UNE-P (loop/port combo) cost using these weightings by zone. This table corrects that error. We have used BellSouth's weightings by zone to reduce the areas of dispute in my analysis, however it should be noted that using more correct information -- residential lines -- would have reduced BellSouth's state-wide UNE margins.
Note 6 – Estimate of DUF charges based on BellSouth's revised SGAT.
Note 7 – The features revenue (per-line basis) was updated with the most recent data available.

10. As the above analysis demonstrates, long distance revenues, access revenues and subscriber line revenues are already taken into consideration in my margin analyses. However, my analysis *excludes* business services for a variety of reasons. First, the decision for a CLEC to enter the residential market is a separable decision from entering the business market. When considering UNE-P entry, CLECs perform separate, stand-alone analyses to evaluate entering the business market versus the residential market. There is absolutely no justification for a CLEC that is seeking to provide competitive (and potentially profitable) business service to enter the

residential market when the residential market is not profitable. In North Carolina, there are no factors that allow for the development of broad competition for the consumer market.

11. Real-world confirmation of this fact is provided in the Evaluation of the United States Department of Justice ("DOJ Evaluation"), filed on July 30, 2002. The DOJ Evaluation included a table, titled CLEC Entry by State, showing the amount of business and residential competition in North Carolina. This table shows that CLECs have captured approximately 27 percent of the business market in North Carolina while only capturing 3.6 percent of the residential market.[4] Clearly, real businesses do not make market entry decisions based on a combined business and residential entry plan, but evaluate these two markets independently.

12. Moreover, even if the Commission were to consider UNE-P entry for business customers (which it should not), that entry vehicle is available for only a very limited number of business customers. Current regulatory restrictions prevent CLECs from competing for many of the business services customers using UNE-P.[5] Moreover, small businesses that can be served by UNE-P comprise a minimal portion of the total market, especially when compared to the absolute number of residential lines. For these reasons, UNE-P is not a significant factor in the business market, and there are no appreciable synergies or savings associated with the

[4] BellSouth suggests that 271 approval should be granted here because CLECs have gained a larger share of the residential market in North Carolina than in some other states that have already been granted 271 approval. This is a case of "Alice Through the Looking Glass." Unfortunately, there is no market share test that has been asserted by the FCC or DOJ in their 271 deliberations. Had there been such a test, the margin (or price squeeze) analysis, which is complementary to the market share test, would have been less necessary and with rational deliberation, these other "benchmark" states would not have been granted relief if there had been a market share test. It is thus absurd to turn the issue around and use the woeful levels of competition in states that have been granted 271 approval as the basis for future relief decisions -- especially since such a test was not considered in granting the comparison states' application.

[5] Current regulatory restrictions limit UNE-P for business customers in Density Zone 1 (as defined in 47 C.F.R. § 69.123) of the top 50 MSAs to customers with three or fewer lines. 47 C.F.R. § 51.319(c)(2).

combination of the residential and business markets. In short, there is no basis for including business services in a UNE-P margin analysis.

VI. CONCLUSION

13. In short, the extremely low *gross* margins in North Carolina effectively preclude competitive entry. This conclusion is fully supported by the table in the DOJ Evaluation entitled CLEC Entry by State. This table shows that CLECs in North Carolina have gained only 3.6% of the residential market in the six years since the passage of the Telecommunications Act of 1996. Thus, a review of local residential competition penetration rates, which are complementary to a margin analysis, indicates that CLECs are *not* actively seeking to enter the market and provide competitive service. This, in turn, corroborates the conclusions of the margin analysis -- the current North Carolina UNE rates preclude effective competition for residential service.

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.

/s/ Michael Lieberman

Michael Lieberman

Executed on: August 5, 2002

Exhibit A

REDACTED – FOR PUBLIC INSPECTION

TAB C

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Application of BellSouth Corporation, Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services In Alabama, Kentucky, Mississippi, North Carolina and South Carolina	)	**WC Docket No. 02-150**

REPLY DECLARATION OF CATHERINE E. PITTS ON BEHALF OF AT&T CORP.

I. QUALIFICATIONS

1. My name is Catherine E. Pitts (formerly Petzinger). I am the same Catherine E. Pitts that filed a Declaration in this proceeding on July 11, 2002.

II. SUMMARY AND PURPOSE OF TESTIMONY

2. This reply declaration provides the Commission with feature penetration ratio information from the North Carolina proceeding to support points made in my initial declaration on feature port additive costs and responds to information included in a BellSouth ex parte letter on switching cost issues.[1] The North Carolina material shows that the data on the 56 features that underlie BellSouth's entire feature cost model methodology are not representative of features actually purchased by

[1] Letter from Sean A. Lev to Marlene H. Dortch, Secretary, FCC (July 25, 2002) ("BellSouth July 25 Ex Parte"). This ex parte letter includes both public and proprietary information.

subscribers, thus resulting in a model that produces features' costs that have little relationship to the features purchased by subscribers. The July 25 Ex Parte further confirms that BellSouth improperly determines feature costs as it improperly allocates getting started and EPHC costs to features. In addition, the North Carolina data also demonstrate that the 55% factor used to spread the cost of the feature port additive across all subscriber lines is unsupported by BellSouth information on the take rate for features.

III. BELLSOUTH'S NORTH CAROLINA INFORMATION, ALONG WITH BELLSOUTH'S JULY 25 EX PARTE, HIGHLIGHTS THE INFIRMITIES IN BELLSOUTH'S FEATURE MODEL COST RESULTS AND ITS REVISED FEATURE RATE DESIGN.

3. Attached as Appendix 1 is feature penetration information from the North Carolina UNE proceeding. The North Carolina features are the same 56 features that BellSouth relied upon in developing usage information for its features cost study and the costs of its feature port additive. According to this document, *36* of the 56 features have *no* subscribers, and another five features are listed as having a penetration rate of one percent. Taking the average of the costs of these 56 features, when 36 of those features have no subscribers and five features have a penetration rate of one percent or less, is a meaningless exercise that is not consistent with TELRIC or cost causation principles.

4. The BellSouth July 25 Ex Parte includes a sheet entitled "[A]verage Feature Usage Calculation" that lists the 56 features used by BellSouth as part of its features costing methodology and a proprietary feature cost calculation. BellSouth's derivation of "averages" as set forth in the Average Feature Usage Calculation completely distorts the determination of features costs, and its use of averages to determine features costs is totally skewed. **[BEGIN BELLSOUTH**

PROPRIETARY] **

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[2] **[END BELLSOUTH PROPRIETARY] The result of BellSouth's inappropriate averaging combined with usage data for large number of features that are not purchased by subscribers produces costs that are inaccurate and are not based on cost causation principles. This is classic "Garbage in, garbage out" costing used to develop the features costs.[3]

5. BellSouth's July 25 Ex Parte includes sample feature cost calculations showing that a cost per millisecond is multiplied by the number of milliseconds to produce processor costs for features. The cost per millisecond is the fixed getting started cost allocated over average utilized process milliseconds. As discussed in my July 11 declaration, the allocation of these fixed getting started costs to

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[2] **[BEGIN BELLSOUTH PROPRIETARY]** ************************ ************** **[END BELLSOUTH PROPRIETARY]**.

[3] In my July 11 declaration, I also explained that BellSouth's basic switch prices for ports and usage already include this hardware. Including them a second time in the features is a double count.

features is inappropriate because these costs do not represent incremental costs that BellSouth incurs when features are provisioned to customers. In a similar manner, the listed cost per EPHC reflects port-related costs that also should not be assigned to features. BellSouth explicitly states in the document that it assumes every feature uses the same number of milliseconds as a basic call.[4] Even if it were correct to assign getting started costs and EPHC costs to features, which it is not, such an assignment should not assume that every feature uses the same number of milliseconds as a basic call, as each feature is different, and there is no relationship between a feature and the number of milliseconds for a basic call.

IV. THE NORTH CAROLINA UNE PROCEEDING DATA DOES NOT SUPPORT BELLSOUTH'S USE OF A 55% TAKE RATE FOR ITS REVISED FEATURE PORT ADDITIVE COSTS.

6. The BellSouth North Carolina UNE rate proceeding data also show that no feature has a penetration of greater than 30%. This figure is totally inconsistent with BellSouth's revised feature port additive rate that is charged to all BellSouth customers (not just those taking one or more features) and based on a 55% take rate for features. If BellSouth's 55% factor is based on its Complete Choice feature bundle, it would be expected that all of the features included in that bundle would have a 55% penetration. In North Carolina, however, only one feature has a feature penetration of 30%; the next highest is 27%, and the third highest is 19%. The 55% take rate is clearly overstated for North Carolina, and BellSouth has not demonstrated that the 55% take rate accurately reflects the take rate for any of the other four states under review in this proceeding.

[4] Line 5, "Feature Calculation-Illustrative" July 25, 2002 Ex parte.

V. CONCLUSION

7. BellSouth information from the North Carolina UNE proceeding and BellSouth's July 25 Ex Parte further demonstrate that the feature port additives in BellSouth's rate structure do not reflect any incremental costs BellSouth would incur if a CLEC customer (or even BellSouth's own subscribers) purchase and use features. The attempt to develop features costs by averaging the costs of 56 features is meaningless given that 36 of the features have no subscribers, and the revised rate structure using the 55% factor only increases the confusion surrounding BellSouth's cost methodology.

I declare under penalty of perjury that the facts stated herein are true and correct, to the best of my knowledge, information and belief.

/s/ Catherine E. Pitts
Catherine E. Pitts

August 5, 2002

BellSouth Telecommunications, Inc.
North Carolina Utilities Commission
Docket No. P-100, Sub 133d
AT&T/WorldCom's 1st Interrogatories
July 5, 2002
SUPPLEMENTAL Item No. 21

REQUEST: Provide penetration ratios (percent of total switched lines in North Carolina) for every switch vertical feature offered by BellSouth for the most current year available. If the information is not available as percent of total switched lines, please provide the penetration ratios that are available, the year for which the ratios are being provided, and explain precisely what the penetration ratio is and by year (e.g., percent of single line business or percent of residential subscribers, etc.).

RESPONSE: BellSouth objects to this response to the extent that it is unduly burdensome and overly oppressive in that BellSouth does not maintain penetration ratios for each and every vertical feature offered to its customers in the normal course and scope of business. Providing AT&T with this information is unduly burdensome and is not reasonably calculated to the lead to the discovery of admissible evidence in that the feature cost (Element B.4.13) is a composite feature cost, which includes all features. The data inputs to the composite feature cost represent the entire range of features. Moreover, the feature cost is based on busy hour usage. The actual penetration ratio of the features offered by BellSouth provides no additional information relating to cost, and the penetration ratio does not relate to the actual busy hour usage of those features and the resulting impact on switch resources.

Subject to, and without waiving the foregoing objections, responsive information is included. This information consists of: (1) a list of the 56 features that were actually reviewed to obtain average switch usage data as part of the cost study in this docket; and (2) penetration ratios for the features listed based on June 2002 data.

FEATURE	PENETRATION RATIO
1. Three-Way Calling	19%
2. Call Forwarding Variable-BBG	11%
3. Customer Changeable Speed Calling – 1 digit	5%
4. Customer Changeable Speed Calling – 2 digits	3%
5. Call Waiting	17%
6. Remote Activation of Call Forwarding	2%
7. Cancel Call Waiting	0%
8. Automatic Callback	0%
9. Automatic Recall	10%
10. Calling Number Delivery (Caller ID)	1%
11. Calling Number Delivery Blocking	1%
12. ACD Distinctive Ringing	0%
13. Customer Originated Trace	7%
14. Selective Call Rejection	9%
15. Selective Call Forwarding	1%
16. Selective Call Acceptance	0%
17. Multiline Hunt Service	7%
18. Call Forwarding Busy Line	15%
19. Call Forwarding Don't Answer All Calls	1%
20. Remote Call Forwarding	1%
21. Call Transfer Outside	0%
22. Speed Calling Individual - 2 digits	0%
23. Manual Line Service	0%
24. ACD Distinctive Ringing	0%
25. Call Hold	0%
26. Semi-Restricted (Orig. and Term.)	0%
27. Toll Restricted Service	0%
28. Call Pick-Up	0%
29. Directed Call Pick-Up with Barge-In	0%
30. Directed Call Pick-Up without Barge-In	0%
31. Trunk Answer Any Station	0%
32. MDR of Private Facility Calls via RAO	0%
33. Fixed Night Service –Key	0%
34. Att'd Camp-On (Nondata Link Console)	0%
35. Call Waiting Lamps for Queue Groups	0%
36. Fixed Night Service – Call Forwarding	0%
37. Att'd Busy Line Verification	0%
38. Att'd Conference	0%
39. Uniform Call Distribution	0%
40. Query Busy Station	0%

41. Automatic Route Selection	0%
42. Deluxe Automatic Route Selection	0%
43. SFGs for In and Out Calls	0%
44. Selective Control of Facilities	0%
45. Facility Restriction Level	0%
46. Msg.Waiting Indic. – Stutter Dial Tone	11%
47. Anonymous Call Rejection	0%
48. Caller ID Deluxe (Name and Number Delivery)	30%
49. Dial Call Waiting	0%
50. Teen Service (Res. Dist. Alerting Svc.)	4%
51. Voice/Data Protection	0%
52. Code Restriction and Diversion	27%
53. Call Park	0%
54. Selective Class of Call Screening	0%
55. Star98 Access	0%
56. Call Waiting Deluxe	0%

RESPONSE PROVIDED BY: Bernard Shell

TAB D

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Application of BellSouth Corporation, Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services In Alabama, Kentucky, Mississippi, North Carolina and South Carolina	)	**WC Docket No. 02-150**

REPLY DECLARATION OF STEVEN E. TURNER

1. My name is Steven E. Turner. I am the same Steven E. Turner that filed a Declaration in this proceeding on July 11, 2002.

I. PURPOSE AND SUMMARY OF AFFIDAVIT

2. BellSouth made revisions to the Daily Usage Feed (DUF) rates contained in its North Carolina SGAT on July 22, 2002 and claimed that these revisions reduced the DUF rates to be consistent with the rates approved in Louisiana. The reduction in the North Carolina DUF rates does not, however, make the revised DUF rates TELRIC-compliant, as these revised DUF rates are subject to the five clear TELRIC errors discussed in my initial declaration that affect the DUF rates in Alabama, Kentucky, Mississippi, and South Carolina.[1]

[1] Letter from Sean Lev to Marlene H. Dortch, Secretary, FCC (July 25, 2002), p. 7. In this ex parte presentation, BellSouth discussed one of the six criticisms regarding its DUF cost studies made in my initial declaration (the third criticism related to the double-counting of system development investment). Based on the clarification provided in BellSouth's ex parte presentation, the issue that I raised regarding the double-counting of DUF system development investment no longer appears to be a concern.

II. NORTH CAROLINA SGAT REVISIONS

3. In my initial declaration, I stated that the DUF rates in North Carolina were significantly higher than and entirely inconsistent with those filed by BellSouth in Alabama, Kentucky, Mississippi, and South Carolina. BellSouth apparently agreed with this assessment. On July 22, 2002, BellSouth revised its North Carolina SGAT DUF rates, allegedly to be consistent with the rates for DUF that it has in place for Louisiana.[2] This last-minute change is clearly designed to make BellSouth's Section 271 application more attractive to the Commission, by reducing the enormously inflated North Carolina DUF rates.

III. THE FIVE CLEAR TELRIC VIOLATIONS THAT CAUSE OVERSTATED DUF RATES IN THE OTHER FOUR APPLICANT STATES APPLY TO THE REVISED NORTH CAROLINA DUF RATES.

4. In my initial declaration, I identified five clear TELRIC violations that affected the cost calculations for Alabama, Kentucky, Mississippi, and South Carolina.[3] BellSouth's July 22,

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[2] As filed with the North Carolina Commission on July 22, 2002, BellSouth did not change its rate for OSS CLP Daily Usage File (Billing): Data Transmission (Connect:Direct) (Cost Ref. No. F.1.5), and that rate remained $0.0004, which was significantly higher than the Louisiana rate. On August 1, 2002, BellSouth submitted a letter to the North Carolina Commission stating that it had made a typographical error and that the rate should have been $0.00004. *See* Letter from Edward Raskin, III, BellSouth, to Geneva Thigpen, Chief Clerk, North Carolina Utilities Comm. (Aug. 1, 2002).

[3] With the exception of Kentucky, the DUF rates proposed by BellSouth are based on SGAT filings made by BellSouth either after the conclusion of the state rate proceedings or in the weeks prior to its Section 271 application. See Letter from Frank Semmes, BellSouth, to Walter Thomas, Secretary, Alabama PSC (June 18, 2002); Letter from Thomas Alexander, BellSouth, to Brian Ray, Executive Secretary, Mississippi PSC (May 29, 2002) (referencing revisions to DUF charges in SGAT on January 9, 2002); Letter from Caroline Watson, BellSouth, to Hon. Gary Walsh, Executive Director, PSC of South Carolina (May 30, 2002). In North Carolina, as discussed above, BellSouth submitted revised DUF rates in an SGAT filing on July 22, 2002. Letter from Edward Rankin, III, BellSouth, to Geneva Thigpen, Chief Clerk, North Carolina Utilities Comm (July 22, 2002). There have been several generations of BellSouth DUF cost studies, and the cost studies that serve as the basis for the DUF rates proposed by BellSouth for Alabama, Mississippi, North Carolina, and South Carolina were not part of the record in the state UNE rate proceedings. Indeed, BellSouth did not even include the DUF cost studies that support its DUF rates for Alabama, Mississippi, and South Carolina in its Section 271 filing with this Commission, but instead produced the supporting cost studies for those states after requests by AT&T and the Wireline Competition Bureau Staff. *See* Letter from Sean Lev to Marlene H. Dortch, Secretary, FCC (July 2, 2002) (submitting DUF cost studies for Alabama, Mississippi, and South Carolina). Thus, as these specific cost studies were not at issue in the UNE rate cases in these states, this proceeding is the first opportunity for AT&T and other CLECs to address the issues raised by these cost studies for those states. In Kentucky, BellSouth submitted a DUF cost study based on a similar cost methodology toward the end of the rate proceeding in response to a staff

2002 revisions to the North Carolina DUF rates to set them at Louisiana levels now make them equivalent to the rates identified in Alabama, Kentucky, Mississippi, and South Carolina. Thus, while they are now significantly reduced, BellSouth's revised rates in North Carolina are nevertheless affected by the clear TELRIC errors identified in my July 11, 2002 affidavit:

(1) BellSouth includes only CLEC demand in developing DUF costs even though BellSouth's billing organization also handles BellSouth's own generation of messages. Failing to spread DUF costs across *all* messages causes BellSouth's cost study to significantly overstate the costs borne by CLECs on a per message basis.

(2) BellSouth has arbitrarily established the cost recovery periods for each of the three types of DUF elements. BellSouth used 10 years for the ADUF rate elements, but only three years for the ODUF and EODUF rate elements. The cost recovery period for 460C assets – the asset class in which BellSouth places DUF systems development work – is five years,[4] which is the period BellSouth should have used to amortize the investments in the systems.

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discovery request, and the Kentucky Commission adopted those rates in its December 2001 order. In the pending Georgia cost proceeding, BellSouth filed DUF rates based on a similar cost study methodology, and I have made many of the same criticisms raised here in testimony in that proceeding. *See* Rebuttal Testimony of Steven E. Turner, Docket No. 14361-U (Ga. PSC), April 5, 2002.

4 *See* BellSouth Telecommunications, Inc., Alabama SGAT Cost Study, August 2001 (hereafter referred to as "Alabama SGAT Cost Study"), "Capcalc.dbf" Database, "Annual Charge Factors" Table, BellSouth Joint Alabama, Kentucky, Mississippi, North Carolina, and South Carolina Section 271 Application, Appendix D, Kentucky Case No. 382, Response of BellSouth to Staff's First Data Request Dated 05/31/01, Item 10(b), Supplemental Response No. 3, 06/14/01 (hereafter referred to as "Kentucky SGAT Cost Study"), "Capcalc.dbf" Database, "Annual Charge Factors" Table, BellSouth. Telecommunications, Inc., Mississippi SGAT Cost Study, August 2001 (hereafter referred to as "Mississippi SGAT Cost Study"), "Capcalc.dbf" Database, "Annual Charge Factors" Table, and BellSouth. Telecommunications, Inc., South Carolina SGAT Cost Study, August 2001 (hereafter referred to as "South Carolina SGAT Cost Study"), "Capcalc.dbf" Database, "Annual Charge Factors" Table.

(3) BellSouth has failed to capitalize all of its system development expenses, and has instead attempted inappropriately to recover this investment as annual expense. In particular, in the case of the ODUF element, the recovery period, even using the expense approach, is too short because 460C assets (the asset class for BellSouth's DUF system development) should be five years and not the three years used by BellSouth.

(4) BellSouth has inappropriately included in its DUF processing charges the costs of magnetic tape even for customers that have ordered an electronic feed. Such costs should be removed from the ADUF, ODUF, and EODUF costs, and placed in the Magnetic Tape element instead.

(5) BellSouth has significantly understated the number of CLEC DUF messages for both the ADUF and ODUF categories due to: (1) errors in identifying the starting level of messages for these message counts; and (2) underestimation of the growth rate in the messages. BellSouth's own data clearly demonstrate a much greater growth rate of messages than what BellSouth has included in the cost study. While BellSouth has understated the growth in number of messages, BellSouth has overstated the growth rate in the number of CLECs participating in the UNE-P market. Again, BellSouth's own data demonstrate the error in BellSouth's estimates.

5. As a result of these TELRIC errors, BellSouth's DUF rates do not satisfy the requirements of checklist item 2. In short, while it is true that BellSouth has lowered the DUF rates in North Carolina, these rates, as well as those for Alabama, Kentucky, Mississippi, and

South Carolina, continue to be affected by clear TELRIC errors and should be rejected by the Commission.

I declare under penalty of perjury that the facts stated herein are true and correct, to the best of my knowledge, information and belief.

/s/ Steven E. Turner
Steven E. Turner

August 5, 2002